

# London Borough of Hackney Pension Fund

## Risk Policy



pensions@hackney



Approval date – 10 March 2022

Version 3

# Risk Policy

## Contents

Introduction	3
To whom this Policy Applies	3
Aims and Objectives	3
Our Philosophy about Risk Management Philosophy	4
CIPFA and The Pensions Regulator's Requirements	5
The London Borough of Hackney Pension Fund Risk Management Process	7
Reporting and monitoring of this Policy	10
Key risks to the effective delivery of this Policy	10
Approval, Review and Consultation	10
Further Information	11

## Introduction

This is the Risk Policy of the London Borough of Hackney Pension Fund, which is managed and administered by Hackney Council (the Administering Authority). The Risk Policy details the risk management strategy for the London Borough of Hackney Pension Fund (the Fund), including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

We recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- ensure high quality administration
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which supports a structured and focused approach to managing risks and ensures risk management is an integral part in the governance of the London Borough of Hackney Pension Fund at a strategic and operational level.

## To whom this Policy Applies

This Risk Policy applies to all members of the Pensions Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all members of the Hackney Council Pension Fund Management Team, the Director, Financial Management, and the Group Director, Finance and Corporate Resources as the Chief Finance Officer (Section 151 Officer), (from here on in collectively referred to as the senior officers of the Fund). and the Chief Finance Officer (Section 151 Officer).

All other Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the London Borough of Hackney Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Financial Services.

Advisers and suppliers to the London Borough of Hackney Pension Fund are also expected to be aware of this Policy, and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

## Aims and Objectives

We recognise the significance of our role as Administering Authority to the Hackney Pension Fund on behalf of its stakeholders which include:

- around 25,000 current and former members of the Fund, and their dependants
- around 41 employers within the Hackney Council area
- the local taxpayers within those areas.

In relation to understanding and monitoring risk, we aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund we will aim to comply with:

- the CIPFA Managing Risk publication
- the managing risk elements in the CIPFA Investment Pooling Governance Principles guidance
- the managing risk and internal controls elements of the Pensions Act 2004
- the Pensions Regulator's Code of Practice for Public Service Pension Schemes (or the expected New Single Code when it is in place). as they relate to managing risk.

## Our Philosophy about Risk Management Philosophy

We recognise that it is not possible or even desirable to eliminate all risks.

Accepting and actively managing risk is therefore a key part of our risk management strategy. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable us to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us. However, it is a sound management technique that is an essential part of our stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

## CIPFA and The Pensions Regulator's Requirements

### *CIPFA Managing Risk Publication*

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

### *CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities*

CIPFA has published guidance on investment pooling and the number of different risks this introduces for LGPS administering authorities. It also highlights how investment pooling potentially changes the magnitude of existing risks and how administering authorities might respond to them through appropriate internal controls.

### *The Pension Regulator's Code of Practice*

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

#### ***"249B Requirement for internal controls: public service pension schemes***

*(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*

*(a) in accordance with the scheme rules, and (b)*

*in accordance with the requirements of the law.*

*(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*

*(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers (i.e. administering authorities) to employ a risk based approach to assess the adequacy of their internal controls and to ensure that

sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise ~~when determining the order of priority for managing risks and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider as well as~~ what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. ~~The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:~~

- ~~how the control is to be implemented and the skills of the person performing the control~~
- ~~the level of reliance that can be placed on information technology solutions where processes are automated~~
- ~~whether a control is capable of preventing future recurrence or merely detecting an event that has already happened~~
- ~~the frequency and timeliness of a control process~~
- ~~how the control will ensure that data are managed securely, and~~
- ~~the process for flagging errors or control failures, and approval and authorisation controls.~~

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks ~~including significant changes in or affecting the scheme and employers who participate in the scheme.~~ It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

#### *Application to the London Borough of Hackney Pension Fund*

We adopt the principles contained in CIPFA's Managing Risk Publication in the LGPS document and the Pension Regulator's code of practice in relation to London Borough of Hackney Pension Fund. This Risk Policy highlights how we will strive to achieve those

principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

The Pension Regulator’s Code of Practice for Public Service Pension Schemes is expected to be replaced by a new Single Code in 2022 (where the Pensions Regulator is merging their codes into one interactive code). It is expected to include updated guidance on risk management and internal controls. It is envisaged that we will follow that updated guidance and this Policy will be updated in due course to reflect the updated guidance.

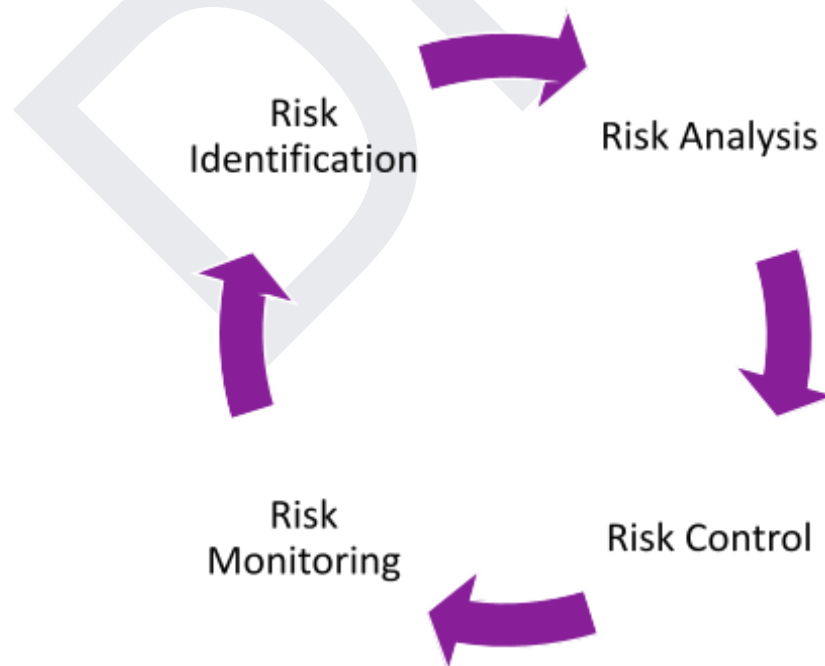
## Responsibility

As the Administering Authority for the London Borough of Hackney Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pensions Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

## The London Borough of Hackney Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund’s past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



*Risk identification*

Our risk identification process is both a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested into risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pensions Committee
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.
- legal determinations including those of the Pensions Ombudsman, the Pensions Regulator and court cases
  - business planning or strategic workshops
- business or service continuity plans developed by us.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

New risks can emerge at any time and risk identification should include allocation of sufficient time and resource identifying these, and should therefore be integral to the day to day management of the Fund.

### *Risk analysis*

Once potential risks have been identified, we will analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the effect if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.



5 Catastrophic	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Insignificant	1	2	3	4	5
	1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

### Likelihood of risk occurring

We will use criteria for assessing likelihood and impact to help promote consistent risk evaluation across Fund matters.

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register. A summary of some of the Fund's key internal controls are also appended to this Risk Policy.

The resulting scores are interpreted as follows:

Level of risk	Level of concern	Action required
High	Very concerned	Action is required immediately
Medium	Concerned	Action is required within three months
Green	Content	We are willing to accept this level of risk

### Risk control

The Head of Pension Fund Investment, in liaison with the Head of Pension Administration where appropriate We will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Risk control actions, often referred to as internal controls, could comprise taking steps to avoid, transfer and/or mitigate risk. Before any such action can be taken, Pensions Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.

- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

A key determinant in selecting the action to be taken will be its potential impact on the Fund's objectives in the light of our risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring. We recognise that it is not possible to eliminate all risks; accepting and actively managing risk is therefore a key part of our risk management strategy.

The Fund's risk register details:

- all further action in relation to a risk
- the owner for that action.
- the date from which the risk did not meet the target score
- the expected date for being back to the target score
- the next review date and
- the overall owner for the risk.

Where necessary, we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

### *Risk monitoring*

Risk monitoring is the final part of the risk management cycle and is the responsibility of the Pensions Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

## Reporting and monitoring of this Policy

The Hackney Pensions Committee acts as the scheme manager for the Fund and therefore have a responsibility for ensuring robust risk management arrangements are in place. In addition, Scheme Advisory Board (England and Wales) guidance on the creation and operation of local pension boards in the LGPS suggests that the Pension Board could review the risk register as it relates to the scheme manager function of the authority.

Progress in managing risks will be monitored and recorded on the risk register. A high level risk summary will be provided to the Committee on a quarterly basis. The full underlying risk register will be maintained by officers and brought to the Committee for full review at least annually every 3 years or following a significant change to internal controls or risk management process. The Committee will also be provided with a risk dashboard which includes any changes to the risk ratings.

The risk summary will provide the Pensions Committee with updates on an ongoing basis in relation to any new risks or significant changes to risks (for example where a risk's score is deteriorating relative to its target).

As a matter of course, the Pension Board will be provided with the same information as is provided to the Pensions Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

## Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

## Costs

All costs related to the operation and implementation of this Risk Policy are met directly by the London Borough of Hackney Pension Fund.

## Approval, Review and Consultation

This version of the Risk Policy was approved at the London Borough of Hackney Pensions Committee meeting on 10 March 2022<sup>42<sup>th</sup></sup> December 2018. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

## Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Rachel Cowburn  
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London Borough of Hackney Pension Fund  
4<sup>th</sup> Floor, Hackney Service Centre  
1 Hillman Street  
London E8 1DY

E-mail [rachel.cowburn@hackney.gov.uk](mailto:rachel.cowburn@hackney.gov.uk)

Telephone 020 8356 2630

Further information on the London Borough of Hackney Pension Fund can be found as shown below:

Email: [pensions@hackney.gov.uk](mailto:pensions@hackney.gov.uk) (Governance)

[hackney.pensions@equiniti.com](mailto:hackney.pensions@equiniti.com) (Administration)

Pension Fund Website: <https://hackneypension.co.uk><http://hackney.xpmemberservices.com>

Hackney Council Website: [www.hackney.gov.uk](http://www.hackney.gov.uk) (including for Pensions Committee minutes and agendas)

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## Appendix: Key Internal Controls

	Control Objective	Description of Control Procedures
Authorising and processing transactions	Benefits payable are calculated in accordance with the Regulations and are paid on a timely basis	<ul style="list-style-type: none"> <li>Fully tested and regularly audited administration system for automated calculations. Checking of calculations and other processes is carried out.</li> <li>Procedures to ensure appropriate authority in place prior to processing payments.</li> </ul>
Maintaining financial and other records	Member records are up to date and accurate	<ul style="list-style-type: none"> <li>Annual and monthly reconciliation of information supplied by employers and administration records. Reconciliation of member movements</li> <li>Pensioner existence checks carried out every 2 to 3 years</li> <li>Members provided with annual benefit statements and asked to confirm if any details are incorrect</li> </ul>
	All cashflows and transactions are recorded in the correct period	<ul style="list-style-type: none"> <li>Accounting journals are automatically created as part of the workflow system.</li> <li>Regular bank reconciliations and cash flow forecasting are carried out</li> <li>The administration records and treasury/accounting records are regularly reconciled</li> </ul>
Safeguarding assets	Member, employer and Fund information is appropriately stored to ensure security and protection from unauthorised access.	<ul style="list-style-type: none"> <li>Password security in place and enforced</li> <li>Access to member and Fund data restricted to authorised personnel</li> <li>Member correspondence scanned and stored in secure systems</li> </ul>
	Cash is safeguarded and payments are suitably authorised and controlled	<ul style="list-style-type: none"> <li>Separate bank account maintained for the Fund</li> <li>Access controlled and authentication required. Cash movements recorded daily</li> <li>Regular bank reconciliations carried out and pensioner payroll reconciled each pay period</li> <li>Pensioner existence checks are carried out every 2 to 3 years, annually if overseas and all pensioners paid only by BAGs.</li> </ul>
	Investment purchases and sales are correctly recorded and valuations are correct	<ul style="list-style-type: none"> <li>Regular reconciliation of information provided by fund managers and custodian and Fund's records</li> <li>Assets held separately from LB Hackney by Custodian.</li> <li>Only authorised individuals, within specified signing limits can instruct / disinvest funds.</li> <li>All investment/disinvestment instructions are drafted by investment managers and advice taken from Fund's investment advisers prior to authorisation and action</li> </ul>

	<b>Control Objective</b>	<b>Description of Control Procedures</b>
<b>Monitoring compliance</b>	Contributions are received in accordance with the Regulations and rate and adjustments certificate	<ul style="list-style-type: none"> <li>• Payment dates monitored against expected / due dates and late payments notified</li> <li>• Employer contributions reconciled annually against Rates and Adjustments Certificate</li> <li>• Member contributions regularly reconciled against pay data received</li> <li>• Take up of the 50/50 option monitored and compared to contributions received</li> <li>• Rates and Adjustments Certificate updated as required when exit valuations carried out</li> </ul>
	Outsourced activities are properly managed and monitored	<ul style="list-style-type: none"> <li>• Monthly report provided by third party administrator, including a report on performance against the SLA.</li> <li>• Monthly meetings between third party administrator and Hackney Council officers and quarterly reporting to Pensions Committee.</li> <li>• All suppliers subject to regular review as part of tender and appointment process.</li> <li>• Annual monitoring of suppliers at Pensions Committee.</li> </ul>
<b>Reporting to stakeholders</b>	<p>Reports to members and employers are accurate, complete and within required timescales</p> <p>Annual reports and accounts are prepared in accordance with regulations and guidance</p> <p>Regulatory reports are made if needed</p>	<ul style="list-style-type: none"> <li>• Detailed planning of annual benefit statement exercise and testing carried out in advance</li> <li>• Timetable agreed for production of annual report and accounts, in consultation with auditors. Analytical reviews carried out regularly during year.</li> <li>• Policies in place to ensure all staff aware of regulatory requirements relating to whistleblowing, money laundering and bribery</li> <li>• Reports to regulatory authorities such as SAB and DCLG provided in a timely manner.</li> </ul>
<b>Information technology</b>	Access is restricted to authorised individuals and tightly controlled	<ul style="list-style-type: none"> <li>• Access to Council and Equiniti offices and IT systems restricted to authorised individuals.</li> <li>• Password security protocols in place and enforced</li> <li>• Any changes to user details or access rights require authorisation</li> </ul>
	Appropriate measures are implemented to counter the threat from malicious electronic attack	<ul style="list-style-type: none"> <li>• Antivirus software used and updated regularly and firewalls in place</li> <li>• IT security reviews carried out regularly by external experts</li> <li>• Filters in place to manage email spam and viruses. Protocols in place to block certain emails (size or content)</li> </ul>
	IT processing is authorised appropriately and exceptions identified and resolved in a timely manner	<ul style="list-style-type: none"> <li>• All IT processes documented and monitored</li> <li>• Changes to systems can only be made by authorised staff</li> </ul>

	<b>Control Objective</b>	<b>Description of Control Procedures</b>
	Data transmission is complete, accurate, timely and secure	<ul style="list-style-type: none"> <li>Secure file transfer protocols available for transmitting data externally</li> <li>Sensitive data transmitted via encrypted or password protected email</li> <li>All staff trained on data security protocols</li> </ul>
	Measures are in place to ensure continuity	<ul style="list-style-type: none"> <li>Data and systems backed up regularly, retained off site and regularly tested for recoverability</li> <li>Business continuity arrangements in place and regularly tested</li> </ul>
	Physical IT equipment maintained in a controlled environment	<ul style="list-style-type: none"> <li>IT infrastructure rooms protected against fire, power failure and unauthorised access</li> <li>Offsite data centre has appropriate security measures in place</li> <li>IT asset register maintained</li> <li>Laptops and mobile devices encrypted or password protected</li> </ul>
Maintaining and developing systems hardware and software	Development and implementation of new systems, applications and software or changes to existing systems are authorised, tested and approved	<ul style="list-style-type: none"> <li>Project controls in place prior to agreeing system update</li> <li>Test administration system environment used for developing system updates</li> <li>Appropriate authorisation required before updates are made live after functionality and user acceptance testing</li> </ul>
	Data migration or modification tested and reconciled back to data source	<ul style="list-style-type: none"> <li>Change management procedures in place for any data migration or modification</li> <li>Scheme data reconciliations carried out as part of process</li> </ul>
Recovery from processing interruptions	Data and systems are regularly backed up, retained offsite and regularly tested for recoverability	<ul style="list-style-type: none"> <li>Servers are replicated to an offsite datacentre or backed up to tapes daily and taken to an offsite data storage facility</li> <li>Recoverability testing is undertaken on a regular basis</li> </ul>
	IT hardware and software issues monitored and resolved in a timely manner	<ul style="list-style-type: none"> <li>Group IT Service Desk facility to log all incidents with prioritisation</li> <li>Service is monitored against Service Level Agreements</li> </ul>
Appropriate governance	The Fund is managed with appropriate direction and oversight by the Pensions Committee	<ul style="list-style-type: none"> <li>Business plan in place and updates provided to each Pensions Committee</li> <li>All key strategies and policies in place and regularly reviewed by Pensions Committee</li> <li>Update reports to each Pensions Committee highlighting progress against key objectives</li> <li>Risk management policy in place and regular updates to Pensions Committee</li> <li>Local Pension Board in place providing assistance with compliance</li> </ul>